

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6749**

**BILL NUMBER:** HB 1174

**DATE PREPARED:** Dec 17, 1998

**BILL AMENDED:**

**SUBJECT:** Police officers' and firefighters' pensions.

**FISCAL ANALYST:** James Sperlik

**PHONE NUMBER:** 232-9866

**FUNDS AFFECTED:**      **GENERAL**  
                                 **DEDICATED**  
                                 **FEDERAL**

**IMPACT:** Local

**Summary of Legislation:** This bill allows police officers and firefighters hired after April 30, 1977, and before May 25, 1977, in certain cities and towns to elect to become members of the 1925 Fund, the 1937 Fund, or the 1953 Fund, as appropriate. (Current law provides that those police officers and firefighters are members of the 1977 Fund.)

**Effective Date:** Upon passage.

**Explanation of State Expenditures:**

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** Before this proposal can be implemented, the affected municipalities must first pass an ordinance to allow a member to be covered by this proposal. This proposal would transfer 30 members who were hired in May of 1977 from the provisions of the 1977 plan to the provisions of the "old" plans (namely, the 1925, 1937, and 1953 Plans.) There are several differences between these two plans. The most notable difference is that benefits under the 1977 Plan cannot commence until age 55, while the benefits under the "old" plans can be paid in full after 20 years of service. Other differences include (1) the formula for adjusting benefits for cost of living and (2) a full return of contributions for members who retire before 20 years of service under the 1977 Plan (as opposed to no refund under the "old" plans.)

If all 30 members transferred, the unfunded liability of the "old" plans could increase by about \$5.31 Million.

If liabilities are moved from the 1977 Plan to the "old" plans in accordance with this proposal, and the employee contributions and employer contributions are moved from the 1977 Plan to the "old" plans, then the new plan would be better funded, but the total contribution rate would likely remain at 27%.

During the next two to three years, the municipalities would be excused, for the 30 members, from paying the 21% contribution associated with the 1977 Plan, and would have the benefit of the 6% member contributions and the transfer of accumulated employee contributions to offset "old" plan benefits and converted benefits for other retired members. This seeming cost "advantage" would be followed by a period of many years during which total benefits would be paid by the municipalities, thus establishing a funding pattern that will place continually more fiscal pressure on the municipalities with the passage of time. The apparent short-term cost advantage would merely represent a cost deferral (hence, much greater costs in the future) to the affected municipalities.

**As an illustration** of the cost deferral, the actuaries for the funds estimate that the total benefits paid by the municipalities to the **30** employees (assuming immediate retirement upon completing 20 years of service) from the "old" plans from ages 49 through 55 would be approximately \$3.8 Million. If the same employees remained in the 1977 Plan until age 55, the municipalities would contribute 21% of first class compensation during the active employment, or about \$1.6 Million, but no further contributions would be necessary for these employees once they retire.

The table below illustrates the increase in benefit payout from the "old" plans. This table assumes all 30 affected members would retire during may of 1999.

<b>INCREASE IN BENEFIT PAYOUT FROM "OLD" PLANS</b>	
<b><u>YEAR</u></b>	
1999	\$541,505
2000	\$568,580
2001	\$597,009
2002	\$626,859
2003	\$658,130

The above estimated impact will be updated upon receipt of more current data.

#### **Explanation of Local Revenues:**

##### **State Agencies Affected:**

**Local Agencies Affected:** Cities and towns who hired the affected 30 members.

**Information Sources:** Doug Todd, McCready and Keene, Inc. Actuaries for the police and fire funds, 576-1508.

Unfunded Actuarial Liability - sometimes called the unfunded liability, is the excess of a retirement system's actuarial liability over the value of its cash and investments.